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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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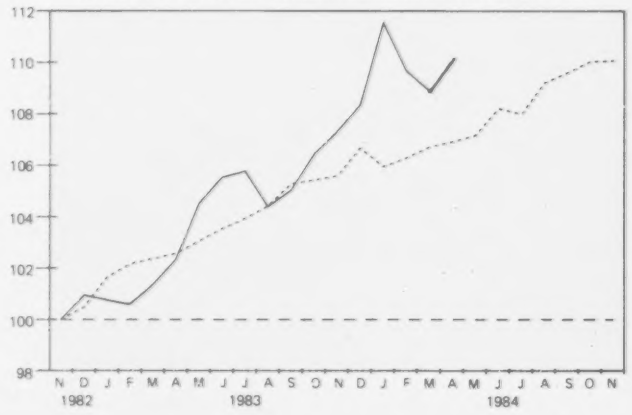
Consumers Go On Spending . . .

After postponing major purchases for years, consumers have rushed back to the marketplace during the current business upswing. Seeing their incomes rise and the employment situation brighten has given them the confidence to draw on credit lines and savings accounts to buy new homes, cars and other goods with greater fervor than has been typical during the first year and a half of earlier expansions. "Real" personal consumption expenditures excluding services are about ten percent higher now than at the end of the last recession with spending for durable goods providing most of the momentum. At this stage of the previous four recoveries, the rise in spending averaged only 6.9 percent (see chart). But while consumer outlays, which represent two-thirds of the GNP, will remain a significant force behind this year's economic growth, people's eagerness to spend may soon diminish, with spending settling down to rates more typical of a second year of recovery.

Personal income, which is the most direct determinant of consumer spending habits, could be losing some of its vigor. In the first four months of this year, wages and salaries rose 9.1 percent, year-over-year. When adjusted for inflation, these increases are the steepest since early 1978. But judging by May's employment figures, wages and salaries may not repeat these hefty gains. This is because the fall in the average workweek more than offset the expansion in the work force (calculated from the survey of establishments), resulting in a decline in aggregate hours worked. What is more, average hourly earnings declined by 0.4 percent. The household survey, which also includes such other groups as farm workers, the self-employed, workers on strike or on unpaid leave, paints a rosier picture. It shows the work force swelling by 886,000 in May.

An unusual contributor to the high level of employment during the past year is the growing number of self-employed persons, now 238,000 larger than a year ago. This is underscored by the recent report by the Dun and Bradstreet Corporation which says that more businesses opened their doors in 1984's first quarter than in any other first quarter since 1978. Business starts increased more than 33 percent from a year ago among service companies, with the most dramatic gains made by accounting and engineering/architectural firms. Not surprisingly, in response to the sharp rise in new housing construction and stepped-up residential home renovation and expansion activity, the construction industry showed a 31 percent increase in business starts. Retail businesses, as is usually the case, accounted for the largest number of starts, representing about 40 percent of the total number of business starts and workers hired by new firms.

REAL PERSONAL CONSUMPTION EXPENDITURES EXCLUDING SERVICES: CURRENT RECOVERY (LINE) VS. AVERAGE OF PRIOR 4 RECOVERIES (DOT) [TROUGH=100]



. . . But The Buying Spree . . .

While the unemployment rate should fall further during the next several months, it is a good bet that the biggest declines have already taken place. This is suggested by May's survey of the nation's purchasing managers, who reported that the economy continued to expand, but more slowly than April's brisk pace. Only 27 percent of their members reported an increase in new orders, down from 46 percent for April. Similarly, the Bureau of Labor Statistics reported a hefty 3.6 percent month-over-month decline in factory orders in April, following eight consecutive monthly increases. These are harbingers of a slowing economy, indicating that industrial production is now rising at a slower pace, and with it businessmen's demand for labor.

However, as long as market interest rates continue their upward climb, one large component of per-

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sonal income should keep on expanding. Interest income--the silver lining of the high interest rate cloud—has already added nearly $17 billion to consumers' buying power since January. It represented one-third of the overall gain in personal incomes during this period and was equivalent to one-half of the rise in wages and salaries. As a result, interest income is once again on its way to becoming the second largest segment of personal income—behind wages and salaries--surpassing transfer payments, which include unemployment benefits and welfare payments. The last time interest income rose above transfer payments occurred between May, 1981 and June, 1982 when interest rates skyrocketed. Since then, as money market rates declined, interest income growth slowed. At the same time, the recession in general and high unemployment in particular raised transfer payments. But if both components continue growing at rates similar to those posted since January, interest income will once more be the second largest component before the end of this quarter.

. . . Is Probably Over

Domestic automobile sales have not shown any signs of slowing—yet. In fact, in May, they jumped to a seasonally adjusted 8.6 million unit annual rate, which is the healthiest clip in more than five years. But given the production and inventory constraints facing dealers and manufacturers, it would seem that current sales of domestic cars are bumping up against maximum levels.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/6/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov't and Agencies Owned Outright & RPs	162.432	+ 1.722	+12.984
Loans to Depository Inst.	3.131	+ .123	+ 2.224
Float	.570	+ .187	− 1.488
Total Reserve Bank Credit	174.290	+ 2.102	+13.866
Treasury Deposits with Federal Reserve Banks	4.704	+ 1.372	+ 2.056
Currency in Circulation	173.733	+ 1.080	+12.929
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	113.776	+ .259	+ 3.693
	6/6/84		
Member Bank Reserves:			
Total Reserves Held	35.602	− .202	+ 1.926
Excess (Deficiency)	.581	− .037	− .043
Net Borrowed Reserves	2.294	− .614	+ 2.571

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (5/28/84)	541.9	+ 6.3	+ 7.0
M2 (April '84)	2,243.0	+ 6.6	+ 7.7
M3 (April '84)	2,791.3	+ 10.2	+ 12.0
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 6/8/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.20%	11.22%	11.83%
* Federal Agencies	10.49	11.30	11.99
* Project Notes—Taxfree (46% Taxable Equivalent)	10.28	10.74	12.04
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.95	11.65	12.40

‡Finance Company Paper—Prime

5- 14 days	10.60%
15- 29 days	10.65
30- 59 days	10.70
60- 89 days	10.60
90-179 days	10.45
180-239 days	10.25
240-270 days	10.25

‡* Bankers' Acceptances

Jul.	10.75%
Aug.	10.80
Sep.	10.95
Oct.	11.15
Nov.	11.45
Dec.	11.40

‡Industrial Paper—Prime

30- 89 days	10.65%
90-120 days	10.80

†Federal Funds Effective Rate 10.80%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,542	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,606	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.8	5.0	2.6
Change in Consumer Prices (new series)*	Apr '84	6.0%	2.4%	8.4%
Change in Producer Prices*	Apr '84	0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons) †	May '84	105,288	104,402	99,762
Unemployment as % of Civilian Labor Force †	May '84	7.5%	7.8%	10.1%
Personal Income*	Apr '84	$ 2,957	$ 2,942	$ 2,689
Leading Indicators Composite Index (1967=100)†	Apr '84	167.8	166.9	152.5
Industrial Production Index (1967=100) †	Apr '84	163.1	160.9	142.6
Net Change in Consumer Installment Credit †	Mar '84	$ 5.87	$ 6.61	$ 2.94
U.S. Merchandise Trade Balance †	Apr '84	−$ 12.19	−$ 10.26	−$ 4.73
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Apr '84	1,963	1,645	1,549
New Construction Expenditures*	Apr '84	$ 302.5	$ 302.0	$ 247.4
Total Business Inventories †	Mar '84	$ 531.8	$ 527.2	$ 499.4
Total Business Sales †	Mar '84	$ 400.7	$ 398.8	$ 348.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Were it not for the strong used car market, fewer people could probably afford to buy a car. The average new car price is eating up larger and larger chunks of people's incomes. While in 1973, the average new car price represented 17 weeks of a median household's income, in 1983, the same family had to work more than four weeks longer for their new car. However, the number of weeks needed to work in order to buy a new car fell in the first quarter of this year, as gains in personal incomes outdistanced the rise in the price of a typical new automobile, which now averages nearly $11,000.

Rising mortgage interest rates have already dampened potential homebuyers' enthusiasm. The typical buyer now pays a full percentage point more for a fixed-rate mortgage than those who bought in mid-April. Although sales of existing homes edged up 1.7 percent in April, sales of new single-family homes were down 4.9 percent on top of a 4.3 percent retreat in March. As a result, the inventory of unsold new homes moved up to 6.2 months' supply—the highest since September, 1983. This, in turn, does not augur well for such downstream industries as home appliances, since each new home needs an average of three new appliances. Not surprisingly, the nation's major retail chains reported slower sales in May—especially of this merchandise. What is more, some merchants report an unwanted rise in their inventories once again, and are beginning to launch new sales promotions to trim the excess. (continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/23/84)	150,664	+ 3,937	+ 4,077
New York City (5/30/84)	32,668	+ 1,395	– 592
Commercial Paper (5/30/84)	214,646	– 722	+45,259

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/23/84)	240,612	+ 30	+26,101
New York City (5/30/84)	63,195	– 158	+ 5,101

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/23/84)	605,198	+ 139	+87,981
New York City (5/30/84)	139,511	+ 2,037	+19,547

Financial Markets

	Friday 6/8/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.25%	+ .10	+ 1.31
180-Day Bills†	11.25	+ .10	+ 1.99
Longest Bills†	12.00	–0–	+ 2.56
Recent Issues:			
12⅝s 5/31/86	12.75	–0–	
12s 3/31/88	13.20	– .10	
13⅛s 5/15/94	13.45	– .15	
13¼s 5/15/14	13.42	– .13	
Municipals:			
Bond Buyer–20 Bond Index* (6/7/84)	10.78%	– .29	+ 1.09
Blue List Total ($ Million)	$1,136	– $242	– $144
30-Day Visible Supply ($ Million)	$2,021	– $155	– $394
Total	$3,157	– $397	– $538
Corporates:			
Moody's Aa Composite (6/7/84)	14.34%	– .13	+ 2.13
30-Day Visible Supply ($ Million)	$ 260	– $150	– $640
Stocks:			
Dow-Jones Averages:			
Industrials	1,131.25	+ 6.90	– 64.86
Transportation	477.67	– .42	– 95.27
Utilities	124.37	–0–	– 2.43
65 Stocks	439.82	+ 1.49	– 39.66
Standard and Poor's 500 Stocks	155.17	+ 1.93	– 7.51
N.Y.S.E. Composite Index	89.33	+ 1.18	– 5.12
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,996	– 5,297	– 2,834

* 46% Taxable equivalent 19.96%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/8/84	Week Ago
Overnight	10.44%	9.69%
1 month	11.00	10.75
3 month	11.44	11.63
6 month	12.19	12:38
1 year	13.13	13.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.40%	13.00%
Long Term (7 to 15 yrs.)	13.70	13.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/8/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01818	55.01
Canada	.7695	1.2996
Denmark	.1010	9.8975
France	.1206	8.2925
Germany	.3712	2.6940
Italy	.0005983	1671.50
Japan	.004316	231.70
Mexico	.004938	202.50
Netherlands	.3291	3.0385
Switzerland	.4451	2.2468
U.K.	1.3963	.7162

The Road From The Summit . . .

Those who look for immediate results from last week's London Summit Conference will once again be disappointed. Nonetheless, it would be short-sighted to dismiss the meeting as just another media event. As with most sophisticated political discussions, what is left unsaid or is touched upon tangentially is as important as what is actually said. Reading between the lines of final Summit statements can be revealing.

Certainly the formal agenda contained a number of important items which reflected the major concerns of the seven participants. But beyond this, the Summit meeting provided an opportunity for private informal discussions to take place in which ideas were advanced, the reactions to them measured and then further refined so that at some future date, they will more likely find a consensus. This is an essential part of the international political and economic process—the identification and exploration of areas of mutual agreement.

Since World War II most of the chief economic problems either have been common to all the major industrial countries, or they have been U.S. domestic problems which have international ramifications. This was especially true at this Summit meeting. While this country's vigorous upswing has already stimulated recovery elsewhere, the U.S. budget deficit, high interest rates and the strong dollar could well undermine the expansion here, thus cutting it short abroad.

Interest rates are again rising from the earlier lows. In fact, in real terms interest rates are approaching the peaks of the last recession. This is the major reason why the dollar is overvalued, causing problems for U.S. export trade as well as for borrowers abroad who must make payments in dollars. What is more, although inflation has slowed dramatically both in the U.S. and abroad, there are fewer and fewer who believe that it will continue to ebb or at least stay at present levels, in spite of strong and broadly-based evidence to the contrary.

. . . Is Neither Straight Nor Smooth

But President Reagan is not the only person who came to last week's meeting with an unfinished economic agenda. Many of the commitments made by all of the national leaders at last year's Summit meeting have not been met. Last year, the Williamsburg declaration took a firm stand on reducing structural budget deficits particularly by limiting the growth of government expenditures. This goal remains beyond the political realities in most of the member countries which are still early in their cyclical upswings. Just as important, not much progress has been made worldwide in the much publicized commitments to halt protectionism and to dismantle trade barriers. Indeed, the pressures toward protectionist policies continue to surge—particularly in those industrial countries which, in spite of resurgent growth, still suffer high rates of unemployment. Evidence of real progress toward meeting some of the other less tangible goals is also elusive, one example—efforts to promote a convergence of national economic performances and the pursuit of a balanced set of economic policies. H

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